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Q&A PANEL DISCUSSION

Evaluating Stable Value: Client Insights Drive Next Level Results

We used client insights to explore the evolution of plan sponsors' approach to assessing stable value, one of the most used and essential DC investment offerings.

- Plan sponsors are revisiting their assessment process to account for evolving retirement needs, such as considering the full retirement life cycle and longer life spans.
- Plan sponsors apply heightened scrutiny and care to the reliability and durability of results.
- We observe greater consideration around participants keeping their assets in plan versus a sole focus on accumulation.

STABLE VALUE'S EXTENSIVE REACH WITHIN THE DC INVESTMENT LINEUP

Q: As a long-tenured portfolio manager in the stable value industry, what primary areas of evolution have you seen, and how have client engagements evolved?

Antonio Luna :

- Looking back, we have experienced a rightsizing of investors in stable value. Evolution of plan design and changing the default investment to target date, better education, and understanding factors that achieve financial goals have all been positive influences. This evolution has done a good job of filtering out investors of stable value to be those most appropriate and has led to the primary investors in stable value being older investors—those over the age of 55. This has also helped us manage cash flows and liabilities.
- There have been sizable market events that have raised awareness and understanding of stable value as an asset class. Both the global financial crisis (GFC) and money market reform advanced plan sponsors' understanding of stable value and helped them make more informed choices. This has all led to a much more technical evaluation process, as well as heightened appreciation for a fundamental research platform.
- With the aging population, we are seeing more appreciation for fixed income and principal preservation—and a desire for shelter from volatility and uncertainty. Capital preservation, particularly stable value, tends to now be approached as a bookend option—both for stability and preservation of capital and as a key lever to be used as a building block for retirement income options. It is even often being considered in custom target date solutions. Overall, pursuits have changed, and conversations evolved to look at stable value as a dual-purpose option.

Q: In your client-facing role as a senior DC specialist and with the growing conversation around retirement income, how are you seeing clients approach the role of stable value within retirement income?

Tim Richman:

- Conversations have evolved to talk about retirement income solutions, instead of the search for a single solution. With that, there is greater recognition of the heterogenous nature of participant needs in retirement. There is a continuum of solutions and income characteristics to solve for, and stable value absolutely has a role on that continuum.
- Thinking about the retirement income solutions continuum—many participants are comfortable with stable value, which can be foundational to address stability, liquidity, and unique access within DC plans. As we go forward, there are a couple of different components that can make stable value more impactful and connected to retirement income discussions. The first is a simple shift in how it's communicated as a retirement income lever. Another important matter is that more participants are keeping more assets in plan for longer, and more sponsors want retirees to remain in plan. Sponsors helping participants understand the role stable value can play could have a big impact.

Q: How are clients reacting to the current stable value marketplace and how are you addressing the heightened activity comparing stable value and money market?

Antonio Luna:

- There is a sense of renewed confidence in the stable value market. Through the pandemic, we experienced what could be referred to is a litmus test, and stable value passed with flying colors. The asset class grew, wrap capacity increased, and there were no manager mishaps.
- There has been some sizable disruption within the industry at the manager level, which is sparking many conversations. These factors are influencing money in motion and increasing search activity and the questions center on firm commitment and stability.
- Engagements are focused on why now is the right time to add stable value to the DC lineup. As we field these inquiries, we share data revealing that, historically, stable value performs very well relative to other fixed income products, and even money market, in a rising rate environment—with the current spread being about 2%, which }may have some staying power for the foreseeable future.
- We are also finding that our client conversations are much more technical, as sponsors are more astute to the nuances of stable value.

Q: How have the topics of disruption and interest rate environment have been driving many of your recent client engagements?

Tim Richman:

- The disruption at the provider level has surfaced the fact that sponsors want stable value to be "stable." As a result, we've seen sponsors focus on getting a better understanding on the stability of our firm and how we delivered through the pandemic and the GFC. The questions are more structural for sponsors to better understand that there is a solid foundation (i.e., they don't have to have this conversation again in three to five years).
- Citing two client case studies, both are exploring a shift from money market to stable value due to the interest rate environment. They are asking the direct question: Why is now a good time to move to stable value? This has led to the review of how stable value performs and the historical yield advantage over money market in a slow, rising rate environment.

For more stable value insights, visit troweprice.com/dcio.

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